Question No. 1.1

Azer Plc.

Consolidated statement of financial position

For the year ended 30 April 20X9

Non-current financial assets	000	000
Property plant and equipment (W-2)	6,800	
Goodwill (W-1)	990	
		7,790
Current assets		
Inventories (W-3)	1,620	
Trade receivable	450	
Cash and bank	800	
		2,870
Total assets		**10,660**
Equity		
Share capital		3,500
Share premium		800
Retained Earnings (W-4)		3,640
		7,940
Non-controlling interest (W-5)		780
		8,720
Non-current liabilities		
Loans		850
Current liabilities		
Trade payable	700	
Taxation	140	

Bank overdraft	250	
		1,090
Total equity and liabilities		**10,660**

Workings

Working 1

Consideration	3,240,000
Net assets	

Share capital	2,000,000	
Share premium	200,000	
Retained earning	200,000	
Fair value exceeding book value	400,000	
		(2,800,000)
Non-controlling interest		600,000
Goodwill		**1,040,000**
Less impairment		(50,000)
Goodwill at year end		**990,000**

Working 2 **Property plant and equipment**

Azer Plc	3,900,000
Park plc	2,600,000
Fair value in excess at acquisition	400,000
Excess depreciation	(100,000)
	6,800,000

Working 3

Azer Plc	650
Park plc	1,000
Unrealized	(30)
At year end	**1,620**

Working 4

	Azer plc	Park plc
Opening retained earning	3,000	1,200
At year start		(200)
For the year		1,000
Additional depreciation		(100)
Unrealized gain on inventory	(30)	
Impairment	(50)	
	2,920	900
Share of profit	720	
	3,640	

Working 5 **NCI**

At acquisition	600
Share of profit	180
	780

Question No. 1.2

i. Goodwill

Goodwill is an intangible asset which came into play when a company acquire or looking to acquire another company, and it is required to pay a price more than the fair price of the other company's assets. That addition in price is due to several factors such as a loyal customer base, good reputation, exceptional workforce, brand recognition and identity and unique technology. All those factors are intangible assets, and their value can not be identified correctly but they are very important while making acquisition decisions.

ii. Negative Goodwill

Negative goodwill arises when the paid price of an asset is lower than the fair value or market price of the asset. Or, when a buyer is paying an amount less than the actual market value or fair value of the asset. It occurs when a company is under pressure due to any reason to sell the asset quickly. The pressure can be need for cash, or pressure of selling an asset which is obsolete in the market.

iii. Accounting for Negative and Positive Goodwill

In Cash flow statement, negative good will is recorded as the gain on acquisition or gain on bargaining, since it is a gain on purchasing or acquisition of an asset, whereas, positive Goodwill is mentioned along with property plants and equipment portion of Fixed assets, and it is added back in statement of cash flow along with depreciation expense.

Question No. 2

Cash Flow from Operating activities	
Profit before Interest and Tax	2319
Adjustments	
Depreciation	660
Gain on sale of Asset	-56
Increase in Account Receivables	-246
Increase in Inventory	-390
Increase in Trade payable	123
Interest	-153
Income Tax	-489
Net Cash Flow from Operating Activities	1768

Question No. 4.1

Ratio		*20X9*		*20X8*
Net Profit Margin	$\frac{18480}{154000} \times 100$	12%	$\frac{24310}{159000} \times 100$	15.28%
Assets Turnover Ratio	$\frac{154000}{352980}$	0.4362	$\frac{159000}{218890}$	0.7263
Current Ratio	$\frac{15980}{29920}$	0.534	$\frac{28890}{23690}$	1.2195
Interest Coverage	$\frac{12300}{9200}$	1.3369	$\frac{18600}{10200}$	1.8235
Gearing	$\frac{160880}{192100}$	0.8374	$\frac{174090}{44800}$	3.8859

Question No. 4.2

From above calculations of ratios, we can see that the profitability of the company is decreased significantly in 20x9, from 15.28% in 20x8 to 12% in 20x9. Although the firm has acquired more destinations, but the profitability is still decreased which can be due to various factors. For example, from the above calculations, we can see that assets turnover ratio is decreased. This shows that in year 20x8, the firm was getting a revenue of 0.7263 for each dollar of asset, but now in year 20x9, the firm is getting a revenue of 0.4362 from each dollar of asset. It is a 66% decrease in Assets turnover ratio. From the financial statement, we can see an increase in non-current assets, but the Asset turnover ratio indicate that assets were increased by no efforts were put in to increase the revenue, as the statement also said that in year 20x8 and 20x9, the number of trips were same. Given the huge increase in non-current assets, there should be an increase of same proportion in revenue. Due to the investment in non-current assets, the liquidity position of the firm is also decreased from 1.2195 in 20x8 to 0.534 in year 20x9. This decrease can cause trouble in future while getting licenses from more locations, as due to decrease in liquidity position, the firm will not be having enough cash to pay for the fees. Moreover, since there is a huge investment in non-current assets, but they are not generating enough revenue, the cash inflow will also be disturbed which can further increase the troubles of the firms. We can also see in above calculations that interest coverage ratio is also decreased as the profit of the firm is decreased, on the other hand, from gearing ratio, we can identify that the company is now relying more on equity than debt, so the reduction in interest coverage ratio is not a big issue since the firm is shifting its capital structure from debt towards equity.

Question 5 (Part – A) 5.1

Gable Ltd
Extracts of Statement of Financial Position
As at 31/12/20x8

	Amount in £	
Assets		
Non-Current Assets		
Building	300,000	
Accumulated Depreciation	-10,000	
		290,000
Current Assets	72,500	
		72,500
		362,500
Equity		
Share Capital	50,000	
Retained Earnings	150,000	
Revaluation Gain	172,500	
		372,500

Workings

		Depreciation Charge for one year	Depreciation charge for last 10 years	Book Value
Building	170,000			
		4250	42500	127,500
				Gain
Building as at 1.1.2018	127,500			
revalued at		300,000		172,500

Building After Revaluation	Depreciation Charge for one year	Book Value
300,000	10,000	290,000

Question 5 (Part – A) 5.2

Building a non-current asset whose book value as per the financial statement year ended 31/12/20x8 is £290,000. It has been revalued recently from £170,000 to £300,000 with a gain of £130,000. Depreciation charge for the year was £10,000 as its remaining useful life is 30 years after revaluation. If Gable Limited sells the building for £280,000 it will bear a net loss of £10,000. The impact on Statement of Financial Position will be that the entity already has only one non-current assets which will be sold, leaving no non-currents assets at all. This will create a question on the going concern principle of the entity, whether the entity is a going concern or not. Further a loss will be realized in the income statement for £10,000.

Question 5 (Part – b) 5.3

IFRS 15 Revenue from Contracts with Customers.

Steps for Revenue Recognition:

There are six five for the recognition of revenue as per IFRS 15:

1. To identify the contract with your customer.
2. To identify the performance obligations in the contract.
3. To determinate the price of the transaction.
4. Allocate or determine the transaction price to performance obligations in the contact.
5. The revenue is to be recognized when the performance obligation is satisfied.